APACHE PRIME VENDOR SUPPORT

Lessons Learned

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Introduction

More than 6 years have passed since the Clinton administration and Congress directed DOD imperatives for acquisition and logistics reform.

Two pilot programs—the M109A6 Paladin self-propelled Howitzer and the AH-64 Apache—were designated by the Army in spring 1998 for implementation of these imperatives. Following this action, in June 1998, an agreement was reached for Apache using a novel approach called the Apache Prime Vendor Support (PVS) contract. All of the directed imperatives were met by this contract. However, this firm-fixed-price agreement was returned without action by the Army 15 months later because of the potential financial management impact to the Army Working Capital Fund (AWCF).

On Aug. 8, 2000, Dr. Jaques S. Gansler, the Under Secretary of Defense for Acquisition, Technology and Logistics, sent a memorandum to the Army recommending implementation of PVS with proposed changes to the negotiated agreement regarding sale of AWCF-owned stock. While Army evaluation of Apache PVS Program options within the AWCF continues, I wish to focus my comments on the benefits of the proposed contract and how we may proceed with this and similar programs in the future.

Background

There has been much policy discussion and rhetoric about acquisition and logistics reform, but little tangible progress. Numerous high-level panels, including the Defense Science Board and the DOD Panel on Commercialization, have strongly recommended the adoption of commercial best practices and competitive outsourcing of both major logistics functions and life-cycle support of individual weapon systems. Review of major commercial operations by these panels indicates the potential for 25-30 percent savings in DOD's $62 billion annual support expenditure.

Congress has consistently supported acquisition and logistics reform with formal legislative requests. For example, in Section 912 of the National Defense Authorization Act for Fiscal Year 1998, Congress directed the Secretary of Defense to submit an implementation plan for streamlining DOD's acquisition organizations, workforce, and infrastructure. As part of the plan, the Secretary of Defense directed each military department to ensure entire life-cycle product support for at least 10 designated significant programs. Responsibility for this rested with the program manager. Section 816 of the National Defense Authorization Act for Fiscal Year 1999 directed the Secretary of Defense to designate 10 "Pilot Programs for Testing Program Manager Performance of Product Support Oversight Responsibilities for Life Cycle Acquisition Programs." In February 1999, the Apache PVS was designated as an approach to help fulfill this requirement. This was based on the fact that the Apache contract guaranteed significant reductions in operations and sustainment costs and improvements in parts availability and aircraft readiness. In addition, the contract provided substantial funding for reinvestments in modernization.

Underlying all of this emphasis on acquisition and logistics reform is the critical need for fundamental changes in product support of systems that must be deployed on short notice. Rapid deployment of military forces demands an agile, almost just-in-time pipeline of munitions, fuel, repair parts, and technical expertise with a small "footprint." This effort responds to Army Chief of Staff GEN Eric K. Shinseki's initiatives regarding the future Army and force structure.

Apache PVS Meets Army Needs

Apache PVS is a total systems approach that ties the contractor's economic success to the operational profile and readiness of the soldier in the field. The PVS firm-fixed-price-per-flying-hour

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contract includes shared savings provisions. The contract also calls for both a 16-percent reduction in flying hour costs and a 20-percent increase in the annual flying hour program to support contingency operations and increased training requirements. A reinvestment of more than $320 million (20 percent of the contract value) is required to achieve reliability improvements and modernization. In addition, there are contract incentives for additional cost reductions and reinvestments for any potential follow-on contract.

Performance-based guarantees for requisition fill time and nonmission capable supply response time ensure reduced soldier workload and improved readiness. These benefits are enhanced by the addition of more than 60 technical and supply support workers at the unit level to issue material and assist in troubleshooting, repair, fault diagnosis, and personnel training. We believe that Apache PVS still contains many beneficial features that support the vision of a leaner, more responsive Army in the future.

Why Was The Initial PVS Contract Returned?

Team Apache Systems, a Boeing-Lockheed team, was notified Oct. 4, 1999, that the June 1998 negotiated contract could not be executed because of a DOD policy decision stating that funding for PVS could not be removed from the Army Working Capital Fund. Apache represents almost 20 percent of the AWCF activity. There was also concern that if the Apache inventory was decapitalized or removed from the AWCF, remaining systems would realize a significant increase in recoverable costs or surcharge. A United States Army Audit Agency (USAAA) review in April 1999 concluded that while Apache did represent a substantial portion of the AWCF and some short-term impact may occur, there would not be an appreciable long-term impact on the AWCF if appropriate infrastructure adjustments were made. The USAAA also certified an enterprise analysis directed by the Assistant Secretary of the Army for Acquisition, Logistics and Technology that substantiated significant savings to the Army during a 20-year period even without any reduction in the fixed overhead costs borne by the AWCF surcharge.

It is disconcerting that industry may be sent the wrong message, particularly after investing considerable financial and personnel resources in the Army decision process. I believe that the real problem with PVS was much deeper and broader. For several significant reasons, the PVS initiative eventually died under its own weight.

Conclusion

The lessons learned from both the aborted Paladin program and the Apache PVS initiative are many and varied. Apache PVS, with its guaranteed cost savings, performance, and readiness benefits to the soldier, seems to have suffered death by analysis. Millions of dollars in savings have already been lost and critically needed modernization efforts such as target acquisition designation system and pilot night vision system reliability improvements must now be tracked separately under individual efforts. The question facing us today is: *Is there a real commitment to reform or are we mired in the bureaucracy of "Business as Usual"?* Clearly, the need to reform is far ahead of either our willingness or ability to reform.

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